

PUBLIC DISCLOSURE

April 21, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HERITAGE CO-OPERATIVE BANK

**71 WASHINGTON STREET
SALEM, MA. 01970**

**DIVISION OF BANKS
100 CAMBRIDGE STREET
BOSTON, MA 02202**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Heritage Co-operative Bank prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "OUTSTANDING"

The rating of this institution is firmly established upon five performance criteria as shown in the following public evaluation located below. The bank's average net loan-to-deposit ratio over the past two years stands at 89.5 percent. This indicates the bank's willingness to seek lending opportunities both inside and outside of its assessment area. Heritage Co-operative Bank sells loans on the secondary market and still maintains an above average net loan-to-deposit ratio. In 1997 and year to date March 31, 1998, the bank granted 85.8 percent of HMDA reportable loans and 83.5 percent of dollar amount of HMDA reportable loans within its assessment area. According to Bankers and Tradesman, the bank ranked as the number two lender in Salem for the number of loans and number three for dollar volume during 1997. Additionally, the bank has granted 32.4 percent of HMDA reportable loans over the past two years to low and moderate-income borrowers. The bank's lending demonstrates an excellent distribution of loans among individuals of different income when compared to other institutions throughout the assessment area. The bank was determined to have a reasonable dispersion of credit among the census tracts within the assessment area. Throughout 1997 and year to date March 31, 1998, the bank originated 1.6 percent of its HMDA reportable loans in low-income census tracts and 9.4 percent in moderate-income census tracts. Although the geographic distribution of loans by census tract illustrates an uneven dispersion, there are several reasons that exist which explains the low number of originations granted to low and moderate-income census tracts. Refer to the geographic distribution of loans in the Performance Criteria for more information. Finally, there were no complaints received by the bank pertaining to its CRA performance and the fair lending examination revealed no evidence of discriminatory or illegal credit practices. The bank's fair lending performance was deemed to exceed standards for satisfactory performance at this time.

PERFORMANCE CONTEXT

Description of Institution

Heritage Co-operative Bank was established in 1888, with the purpose of serving the savings and credit needs of working individuals and businesses located in Salem and surrounding cities and towns. As of March 31, 1998, the bank had assets of \$139.9 million of which loans comprised 75.5%.

Refer to the following table for additional information on the breakdown of loans.

LOAN TYPE	AMOUNT 000's	PERCENT
1-to-4 Family Residential	\$ 86,265	81.7
5+ Residential	\$ 5,500	5.2
Construction & Development	\$ 5,876	5.6
Commercial Real Estate	\$ 4,976	4.7
Consumer	\$ 1,936	1.8
Commercial	\$ 1,090	1.0
GROSS LOANS	\$ 105,643	100.0

Source: March 31, 1998 Call Report

Heritage Co-operative Bank operates four full service offices, including its Main Office in downtown Salem. The bank's three branches are located in the City of Beverly and the Towns of Danvers and Marblehead. In addition, the bank has ATM's located at all offices that are linked to the Yankee and NYCE networks. Banking hours at all offices are considered convenient and easily accessible to all customers, which includes extended hours on Saturdays. Extended hours are also offered at the branch locations on Thursdays and Fridays. The bank's main office is located in middle-income census tract. Of its offices, the branch located in Beverly is in a moderate-income census tract, the branch in Danvers is located in a middle-income census tract, and the branch in Marblehead is in an upper-income census tract. The bank has not closed any branches since the previous examination. Office hours are convenient and appear to be accessible to all segments of the assessment area.

Heritage Co-operative Bank has direct competition within the immediate area from several local institutions including Eastern Bank, Danvers Savings Bank, Salem Five, Beverly Co-operative Bank, Beverly National Bank, Marblehead Savings Bank and Ipswich Savings Bank, as well as a number of regional and national mortgage companies.

The examiners used PCI Services, Inc., CRA Wiz, to generate aggregate HMDA reports, when comparing Heritage Co-operative Bank to other HMDA lenders throughout its assessment area. The geographic distribution of the bank's loans among various geographies may also be compared to that of all other HMDA reporting lenders in the assessment area. Other HMDA reporters include bank and nonbank entities such as large national banking companies, local banks, other credit unions and mortgage

companies. In addition, examiners used reports from Bankers & Tradesman that were supplied by the bank.

The bank was last examined for compliance with the Community Reinvestment Act by the Federal Deposit Insurance Corporation on March 31, 1997. That examination resulted in an Outstanding rating.

Description of Assessment Area

Heritage Co-operative Bank has defined its assessment area as the cities and towns of Salem, Peabody, Beverly, Marblehead, Danvers, Swampscott, Lynn, Lynnfield, Hamilton, Manchester, Middleton, Wenham, Topsfield, Essex and Boxford. This delineation places these towns within the Boston Metropolitan Statistical Area (MSA) with the exception of Boxford, which is located in the Lawrence MSA.

Assessment Area Demographics

According to 1990 US Census Data, these 15 communities have a combined population of 310,631 and a total of 126,878 housing units. Of the total housing units, 73,173, or 57.7 percent are owner occupied, 45,502, or 35.9 percent are rental units, and 8,203, or 6.4 percent are vacant housing units. The City of Lynn had the lowest percentage of owner occupied units at 42.0 percent followed by Salem with 42.4 percent. Median housing values for the assessment area is \$180,636. In addition, 10,624, or 9.0 percent of the total number of households in the assessment area are living below the poverty level.

In total, there are 63 census tracts within the bank's assessment area: five that are designated as low-income, 18 designated as moderate-income, 28 designated as middle-income, and 12 designated as upper-income. The following table does not include one census tract that is designated as N/A (2115.00). This census tract is located in Danvers, and according to information generated by PCI Services, Inc., CRA WIZ, there is no population in that census tract. Please see the following table.

CENSUS TRACTS AND INCOME IN ASSESSMENT AREA

CITY/TOWN	LOW	MODERATE	MIDDLE	UPPER	TOTAL
Swampscott	0	0	1	1	2
Marblehead	0	0	0	3	3
Salem	1	1	6	0	8
Lynn	4	12	6	0	22
Lynnfield	0	0	0	2	2
Peabody	0	3	6	0	9
Danvers	0	0	3	1	4
Middleton	0	0	1	0	1
Topsfield	0	0	0	1	1
Hamilton	0	0	1	0	1
Wenham	0	0	0	1	1
Beverly	0	2	3	1	6
Manchester	0	0	0	1	1
Essex	0	0	1	0	1
Boxford	0	0	0	1	1
TOTAL	5	18	28	12	63
PERCENTAGE	7.9	28.6	44.4	19.1	100.0

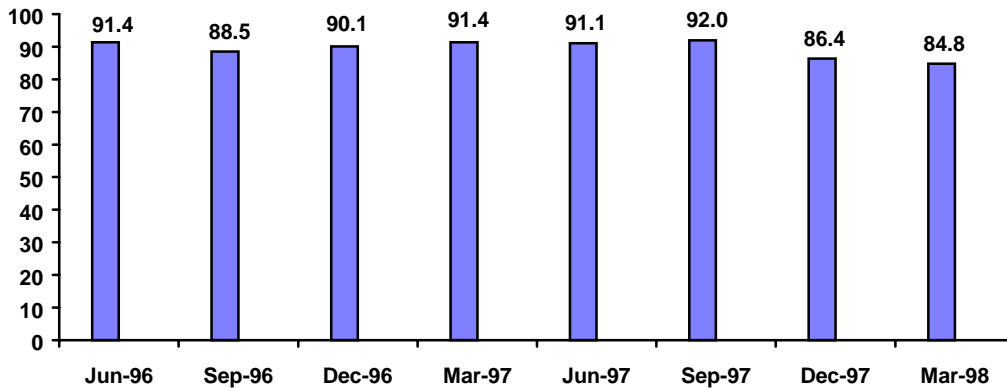
Source: 1990 MSA census data

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

A comparative analysis of Heritage Co-operative Bank's quarterly net loan-to-deposit ratios for the period of June 30, 1996 through March of 1998, was conducted during this examination. Using the bank's quarterly Call Reports, the average net loan-to-deposit ratio for this period is 89.5 percent. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses (ALLL) as a percentage of total deposits. The following graph is provided for further analysis.

NET LOAN-TO-DEPOSIT RATIOS
(June 30, 1996 through March 31, 1998)



The loan to deposit ratio stands at 84.8 percent as of March 31, 1998, lower than the 91.4 percent for June of 1996. This ratio has averaged 89.5 percent over the previous eight quarters. However, as indicated in the above table the bank's loan-to-deposit ratio has exhibited a declining trend since September of 1997. Currently, the bank's loan-to-deposit ratio is at an eight quarter low. This decline is attributed to the sale of mortgages on the secondary market, and aggressive pricing of the bank's deposit products above that of its competition. A comparison of the dollar amount for the bank's loans and deposits as of December of 1997 was compared to that of December of 1996. This comparison revealed that deposits have increased by 6.2 percent, while loans for the same period has decreased by 1.4 percent.

Heritage Co-operative Bank's average net loan-to-deposit ratio was compared to the ratios of other area institutions. The ratios used for both Heritage Co-operative Bank and the other institutions was as of December 31, 1997. Refer to the following table.

INSTITUTION	NET LOAN TO DEPOSIT RATIO
Heritage Co-operative Bank	86.4%
Marblehead Savings Bank	107.6%
Ipswich Savings Bank	98.9%
Salem Five Cents Savings	81.7%
Beverly Co-operative Bank	90.9%
North Shore Bank	79.9%

Heritage Co-operative Bank sells loans on the secondary market to FHLMC (Freddie Mac) throughout the year, which enables the bank to recycle funds and extend additional credit. In 1996, the bank sold 66 loans totaling \$6,737,323. In 1997, the bank sold 103 loans, for a total of \$11,809,010. For the first quarter 1998, the bank sold 20 loans, for approximately \$2.6 million. Despite selling loans on the secondary market, the bank continues to maintain a high net loan-to-deposit ratio. Therefore, Heritage Co-operative Bank's net loan-to-deposit ratio is considered to exceed satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

A review of Heritage Co-operative Bank's Loan Application Registers (LARs) for 1997 and year to date March 31, 1998, were conducted during the examination. This information indicated the bank originated 309 HMDA reportable loans during this period. All of the loans were for purchased and refinanced properties. A total of 265, or 85.8 percent of all HMDA reportable loans were originated within the bank's assessment area. Salem accounted for 23.3 percent of these loans, followed by Beverly with 15.6 percent, Danvers with 15.2 percent, Peabody with 10.0 percent, and Lynn with 5.5 percent.

An additional review of the total dollar amount of HMDA reportable originations for the same period was also reviewed. The percentage of loans by dollar amount was similar to the number of originations within the assessment area. The bank granted a total of \$38,377,000 in HMDA reportable loans during this period. Of these loans, \$32,061,000, or 83.5 percent were originated within the bank's assessment area. Salem accounted for 20.5 percent of the dollar amount of loans, followed by Danvers with 15.5 percent, Beverly with 14.5 percent, Peabody with 9.3 percent, and Marblehead with 5.0 percent.

Refer to the following tables for additional information.

HMDA LOANS BY NUMBER OF ORIGINATIONS

	1997		1998 (YTD)		TOTALS	
LOCATION	#	%	#	%	#	%
Salem	51	24.5	21	20.8	72	23.3
Beverly	28	13.5	20	19.8	48	15.6
Danvers	34	16.3	13	12.8	47	15.2
Peabody	19	9.1	12	11.9	31	10.0
Lynn	9	4.3	8	7.9	17	5.5
Marblehead	7	3.4	6	5.9	13	4.2
Middleton	6	2.9	2	2.0	8	2.6
Hamilton	6	2.9	2	2.0	8	2.6
Swampscott	5	2.4	2	2.0	7	2.3
Lynnfield	1	0.5	3	3.0	4	1.3
Essex	2	1.0	2	2.0	4	1.3
Wenham	3	1.4	0	0.0	3	1.0
Topsfield	1	0.5	1	1.0	2	0.6
Boxford	1	0.5	0	0.0	1	0.3
Manchester	0	0.0	0	0.0	0	0.0
INSIDE ASSESSMENT AREA	173	83.2	92	91.1	265	85.8
OUTSIDE ASSESSMENT AREA	35	16.8	9	8.9	44	14.2
TOTALS	208	100.0	101	100.0	309	100.0

Source - 1997 and year to date March 31, 1998 (LARs)

LOANS BY DOLLAR AMOUNT OF ORIGINATIONS

	1997		1998 (YTD)		TOTALS	
LOCATION	\$ 000s	%	\$ 000s	%	\$ 000s	%
Salem	5,457	20.1	2,418	21.5	7,875	20.5
Danvers	4,476	16.5	1,497	13.3	5,973	15.5
Beverly	3,722	13.7	1,837	16.3	5,559	14.5
Peabody	2,363	8.7	1,202	10.7	3,565	9.3
Marblehead	1,031	3.8	894	7.9	1,925	5.0
Lynn	807	3.0	684	6.1	1,491	3.9
Hamilton	977	3.6	225	2.0	1,202	3.1
Middleton	883	3.3	201	1.8	1,084	2.8
Wenham	900	3.3	0	0.0	900	2.3
Swampscott	641	2.4	187	1.7	828	2.2
Lynnfield	230	0.8	571	5.1	801	2.1
Topsfield	195	0.7	220	2.0	415	1.1
Essex	115	0.4	136	1.2	251	0.7
Boxford	192	0.7	0	0.0	192	0.5
Manchester	0	0.0	0	0.0	0	0.0
INSIDE ASSESSMENT AREA	21,989	81.0	10,072	89.6	32,061	83.5
OUTSIDE ASSESSMENT AREA	5,143	19.0	1,173	10.4	6,316	16.5
TOTALS	27,132	100.0	11,245	100.0	38,377	100.0

Source - 1997 and year to date March 31, 1998 (LARs)

According to Bankers and Tradesman, Heritage Co-operative Bank was ranked as the number two lender in Salem for the number of loans and the number three lender for dollar volume during 1997. In Danvers, the bank ranked as the number three lender in both number of loans as well as dollar volume. These rankings continue to illustrate the bank's ability to serve the credit needs of its entire assessment area and remain aggressive in the mortgage market. This is considerable, as competition throughout the assessment area is extensive.

Based on all of the above information, it is evident that a substantial number and dollar amount of the bank's loans have been extended within its assessment area. Therefore, the institution's level of lending within its assessment area exceeds the standards for satisfactory performance.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

An analysis of residential mortgages extended within the various income levels throughout the assessment area was conducted during the examination. Originations were categorized by the ratio of the applicant's reported income to the median family income of the Boston and Lawrence Metropolitan Statistical Areas (MSA). Refer to the following table for a breakdown of the estimated 1997 and 1998 HUD information.

MSA	1997	1998
Lawrence	\$55,800	\$56,700
Boston	\$59,600	\$60,000

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA; moderate income is defined as 50 to 79 percent of the median family income; middle income is defined as income between 80 and 119 percent of the median family income; and upper income is defined as income greater than 120 percent of the median family income.

Refer to the following table for information on the bank's distribution of credit among different income levels.

HMDA LOANS BY INCOME OF BORROWER

% OF MEDIAN MSA INCOME	1997		1998 (YTD)		TOTAL	
	#	%	#	%	#	%
<50%	22	12.7	8	8.7	30	11.3
50% - 79%	33	19.1	23	25.0	56	21.1
80% - 119%	53	30.6	32	34.8	85	32.1
120% >	60	34.7	29	31.5	89	33.6
N/A	5	2.9	0	0.0	5	1.9
TOTAL	173	100.0	92	100.0	265	100.0

Source - 1997 and year to date March 31, 1998 (LARs)

As the above table indicates, 32.4 percent of HMDA reportable loans within the bank's

assessment area were made to borrowers with low and moderate-income, followed by loans to middle-income borrowers with 32.1 percent and upper-income borrowers accounting for 33.6 percent.

The following table shows the number and dollar volume of HMDA-reportable loans originated by the bank to low, moderate, middle and upper-income borrowers in comparison to the activity of all other HMDA-reporting lenders in the assessment area during 1996. This table was utilized as a comparison of the bank's lending to individuals of different incomes for 1996 as the aggregate figures for 1997 were not yet available at the time of the examination.

**Lending Within the Assessment Area to Borrowers of
Different Income Levels
Heritage Co-operative Bank Compared to
All Other HMDA-Reporting Lenders**

Borrower Income Level	Number of Loans				Dollars in Loans (000's)			
	Heritage Co-operative		All Other Reporters		Heritage Co-operative		All Other Reporters	
Low	20	8.6%	577	5.3%	1,611	5.6%	33,564	2.2%
Moderate	51	22.0%	1,876	17.2%	5,205	18.2%	155,845	10.4%
Middle	71	30.6%	2,821	25.9%	8,165	28.6%	309,711	20.7%
Upper	88	37.9%	4,322	39.7%	13,115	46.0%	784,777	52.3%
NA	2	0.9%	1,303	11.9%	446	1.6%	216,022	14.4%
Total	232	100.0%	10,899	100.0%	28,542	100.0%	1,499,919	100.0%

Source: HMDA Data for the period 1/1/96 to 12/31/96.

As shown in above table, the percentage of the bank's lending to low and moderate-income borrowers exceeds that of all other lenders in both the number and dollar volume of loans originated during 1996. This distribution of lending demonstrates the bank's willingness to lend to borrowers of all income levels, including those of low and moderate-income. The aggregate reports for 1997 were not available at the time of this examination. However, the percentage of originations throughout 1997 and year to date 1998 to low and moderate-income borrowers are similar to the 1996 distribution, and continue to indicate strong performance in this area.

A review of the distribution of credit to borrowers of various incomes reflects an excellent penetration among individuals of different income levels, when comparing the income characteristics to the demographics of the assessment area, including those of low and moderate-income. Therefore, the distribution of credit among different income levels exceeds the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of HMDA reportable loans extended within the various census tracts contained in the bank's assessment area was conducted during the examination. The bank's assessment area is comprised of 63 census tracts. Of these census tracts, 5 are designated as low-income, 18 as moderate-income, 28 as middle-income, and 12 as upper-income.

Throughout 1997 and year to date March 31, 1998, the bank originated 69.4 percent of its HMDA reportable loans within its assessment area in middle-income areas, followed by 19.6 percent in upper-income census tracts, 9.4 percent in moderate-income census tracts, and 0.9 percent in low-income census tracts.

Refer to the following table for more information on the bank's residential mortgage originations within its assessment area.

ORIGINATIONS BY CENSUS TRACT

CENSUS TRACT	1997		1998 (YTD)		TOTAL	
	#	%	#	%	#	%
LOW	4	2.3	0	0.0	4	1.6
MODERATE	18	10.4	7	7.6	25	9.4
MIDDLE	120	69.4	64	69.6	184	69.4
UPPER	31	17.9	21	22.8	52	19.6
TOTAL	173	100.0	92	100.0	265	100.0

Source: 1997 and year to date March 31, 1998 (LARs)

Although the geographic distribution of loans by census tract demonstrates an uneven dispersion, there are several reasons that exist which more fully explain the low number of originations made to low and moderate-income census tracts. Of the five census tracts designated as low-income, four are located in Lynn. The bank does not have any branches in Lynn, which is located on the outer limits of the assessment area. The remaining low-income census tract, located in downtown Salem, is the location of the four originations. Also, 16.4 percent of the housing units located in the low-income census tract of Salem is owner-occupied. Heritage Co-operative Bank also faces competition from many financial institutions throughout its assessment area that are seeking the same customer base. According to 1996 peer data supplied by PCI Services, Inc., CRA Wiz, the bank originated 12.9 percent of its HMDA reportable loans in low and moderate-income census tracts compared to all other lenders within its assessment area accounting for 16.5 percent to the same customer base.

Based on the analysis of the geographic distribution of loans, the bank meets the standards of satisfactory performance in generating originations from all segments of its assessment area.

5. REVIEW OF COMPLAINTS/FAIR LENDING

Heritage Co-operative Bank has not received any complaints that was related to its CRA performance since the previous examination.

FAIR LENDING POLICIES AND PRACTICES

The bank has a written Fair Lending Policy which adequately address the guidelines set forth in Regulatory Bulletin 2.3-101 (formerly Administrative Bulletin 5-10). The policy states that it is the general policy of the bank, its Board of Directors, and Management to engage in fair lending practices. The policy also provides that the bank's credit standards and policies are fair and responsive to all eligible credit applicants in line with safe and sound lending standards. The policy further states that the Board of Directors has implemented a periodic analysis of credit denials. The following synopsis provides information concerning the institution's Fair Lending compliance.

STAFF TRAINING

Heritage Co-operative Bank has its own formal training policy which provides for training to all employees which is pertinent to their areas of work. The Board of Directors and Management of the bank encourage employees to individually improve and develop their banking skills through outside sources if not available through the bank's own in-house training efforts. Each department head is responsible for working with the Compliance Officer to schedule employees for the appropriate training session at the proper time.

The bank conducted a CRA training session entitled "CRA: Making a Difference in the Community". The session was for all employees of the bank and was held on April 30, 1997. The session consisted of the presentation of a short video discussing the purposes of the Community Reinvestment Act, some discussion, and an opportunity for some questions and answers. The training was held in three separate sessions

The bank's CRA Officer attended a seminar on HMDA Reporting Requirements for 1997. The seminar was presented on February 12, 1998 by Massachusetts Mortgage Bankers Association and the Community Bank League of New England. Other topics included were Regulation C, Fair Lending, common reporting mistakes and inquiries.

On October 29, 1997, the Program Coordinator from Massachusetts Housing Partnership (MHP), held a training class for the loan department on Soft Second Loans for the First Time Home Buyer. The training included income limits, acquisition costs, LTVs, and submission of the application to MHP. Training materials, applications and brochures were also provided to all in attendance.

On November 21, 1997, members of the bank's loan department attended a discussion about credit scoring presented by a guest speaker from Freddie Mac. The speaker distributed a pamphlet regarding the basics of credit scoring and discussed the various issues such as types of credit scores, risk layering, and credit scoring vs. traditional underwriting.

On June 17, 1997, a member of the bank's Loan Department attended a training session on Post Purchase issues and concerns for the First/New Homeowner. The training session addressed ways of assisting first-time homebuyers sustain their home ownership. The session also addressed MAHA's "HomeSafe" program which provides for a homeowner resource center and discount program.

Employees of the bank attend various seminars conducted by the Massachusetts Mortgage Bankers Association. The seminars generally address various mortgage topics such as Credit Risk assessment, expanding markets, mortgage loan servicing, opportunities in residential lending, completing the mortgage application, credit assets, basic underwriting procedures and documentation required for the mortgage file, and various changes or proposed changes in Regulations.

STAFF COMPOSITION AND COMPENSATION

The bank has a full and part-time staff of 38 employees. The bank employs two staff members who speak Spanish and Portuguese. In addition, the bank employs two Hispanic employees.

The bank makes use of outside originators. The originators are paid on a salary basis and are therefore encouraged to make loans of all dollar amounts.

OUTREACH

Management and the Board of Directors maintain positive attitudes in addressing community credit needs. Meaningful and ongoing relationships are maintained with a variety of community organizations in order to determine the credit needs of its assessment area, including low and moderate-income neighborhoods. Management and the Board of Directors have met with a full range of individuals and groups which address civic, neighborhood, minority, small business and community development groups. These organizations include but are not limited to the following: Salem Harbor Community Development Corporation, Danvers Housing Assistance Trust, North Shore Money Management Elder Services, and the local Housing Authorities of each city and town within the assessment area.

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

General credit underwriting guidelines are provided for all areas of consumer credit and commercial credit products. These credit underwriting guidelines are meant to be only general guides, with each loan officer charged with specific responsibility to investigate further any other options that may be available, within the boundaries of safe and sound lending practices, as well as non-discriminatory lending efforts.

The CRA Committee reviews its credit products at least annually, sometimes on a quarterly basis, in order to determine whether those products are helping to meet the credit needs of all segments of the bank's assessment area. As part of its ongoing CRA efforts, meetings are often scheduled with local town and city officials as well as numerous community

groups to develop credit products to meet community credit needs.

The bank offers credit services which make use of flexible lending criteria including various in house first time home buyers programs.

The bank also has access to the following flexible products (the following is not an exclusive list):

- The bank has access to many flexible lending products offered through the City of Salem, including the *Salem First Time Homebuyer Consortium*. Organized through the City of Salem, the consortium consists of local lenders, realtors, attorneys, and appraisers who have agreed to offer services at special rates to First Time Homebuyers who qualify for the City of Salem's Soft Second Loan Program. Closing costs are reduced, there are low down payment options, and easy qualification guidelines.
- Heritage Co-operative Bank also has access to the City of Lynn's *Home Investment Partnership Program* for first time homebuyers; the City of Peabody's *Soft Second Mortgage Program*; as well as the City of Danvers and Beverly *Soft Second Mortgage Program*.
- The bank also has access to all of the lending programs available through the Massachusetts Housing Finance Agency (MHFA).
- Applicants can also be directed to the Soft Second Loan Program through the Massachusetts Housing Partnership Fund; Fannie Mae's *Community Homebuyer's Program*; and various Freddie Mac products including it's *Discover Gold* (its *Affordable Gold* product with a 3/2 option).

MARKETING

The bank regularly advertises in local newspapers, as well as radio. Newspaper is the most frequent media used. The bank has not utilized any bi-lingual advertising to promote its credit products or services. However, the bank placed one general image related advertisement in a flyer promoting a Spanish cultural event sponsored by the Salem Harbor Community Development Corporation.

CREDIT EDUCATION

In conjunction with local community groups, Heritage Co-operative Bank has sponsored or participated in various seminars and workshops which promote the bank's affordable mortgage products and assess the credit services needed in the area.

On October 20, 27, and November 7, and 13, 1997, Heritage Co-operative Bank, in conjunction with Cambridgeport Bank, and the Danvers Housing Assistance Trust, held a First Time Homebuyer Seminar, at the Peabody Institute Library in Danvers. Attendees received a certificate upon completion of four sessions, which allowed them to receive MHFA funding, and also allows them to participate in a 3/2 option mortgage.

On May 14, 1997, the bank along with the City of Salem, and the Salem CDC, held a First Time Homebuyer seminar. In attendance were three members of the bank's lending staff.

Twelve people attended the seminar which focused on various subject areas such as qualifying for a mortgage, description of the mortgage payment, and what the applicant needs to expedite the homebuying process.

COUNSELING

The bank refers all loan customers whose payments are more than 30 days delinquent, to the appropriate credit counseling services available in the area. A form containing the names, addresses and phone numbers of various counseling agencies is mailed to the borrower.

SECOND REVIEW PRACTICES

The bank considers a credit denial a lost opportunity to extend credit to a credit applicant. In as much as a certain amount of time is always invested by the bank in every credit application, a second review is conducted for all credit denials.

The bank's Senior Vice President and Compliance Officer performs a second review of all denied loan applications and reports to the CRA Committee, which in return reports to the full Board of Directors.

In addition, a sample of denied loan applications are reviewed annually to verify the use of proper lending standards in supporting those loan denials. Also, denials are geo-coded in the same manner as approvals so the bank can determine if there is an unreasonable number of denials in a specific geographic region of its assessment area.

INTERNAL CONTROL PROCEDURES

To ensure compliance with Fair Lending laws, the bank periodically monitors compliance through ongoing compliance reviews as well as routine audits. The audit verifies the reasons given for adverse action are supported by the information contained in the file, and also verify that lending decisions adhere to bank policy and are consistently applied for all applicants. The audit also ensures that loan information contained on the Loan Application Register (LAR) is accurate.

Annually, the bank analyzes its lending patterns to determine if they indicate any questions about potential discrimination. Copies of the file audits and geographic analyses were available for Examiner review.

MINORITY APPLICATION FLOW

A review of HMDA-reportable loan applications was conducted in order to determine the number of applications the bank received from minorities. During 1997 and year to date March 31, 1998, the bank received 308 HMDA-reportable residential loan applications from within its assessment area. During this period, 12 applications, or 3.9 percent, were received from minorities. Refer to the following table for further details.

Application Flow

Race	1997		1998 (YTD)		Total	
	#	%	#	%	#	%
American Indian	1	0.5	0	0.0	1	0.3
Asian	3	1.4	2	1.9	5	1.6
Black	1	0.5	0	0.0	1	0.3
Hispanic	2	1.0	1	1.0	3	1.0
Other	1	0.5	1	1.0	2	0.7
Total Minority	8	3.9	4	3.9	12	3.9
White	195	95.1	99	96.1	294	95.4
No Information	2	1.0	0	0.0	2	0.7
Total	205	100.0	103	100.0	308	100.0

Source: 1997 and year to date March 31, 1998 LARs.

The bank's minority application flow for this period was compared with the racial make-up of the assessment area. The comparison of this data assists in deriving reasonable expectations for the institution's minority application flow.

According to 1990 Census Data, the bank's assessment area contained a total population of 310,631 individuals of which 8.0 percent are minorities. The minority population is 3.9 percent Hispanic, 2.2 percent Black, 1.7 percent Asian, 0.1 percent American Indian and 0.1 percent Other.

Aggregate information for 1996 indicated that 2.6 percent of the applications received from Heritage Co-operative Bank were from minorities, compared to all other lenders throughout the assessment area at 6.1 percent.

As indicated in the above table, the bank's application flow is slightly lower than what could be expected, based on the racial make-up of the assessment area and 1996 aggregate data for all HMDA reporters within the assessment area.

Qualified Investments & Services

Investments

At the bank's request, qualified investments and services were reviewed. A qualified investment is defined as a lawful investment, deposit, or grant that has its primary purpose as community development. The bank's investments in 1997 and year to date 1998 consisted of monetary contributions to local charitable groups and membership fees to business organizations.

During 1997, Heritage Co-operative Bank agreed to be the lead bank on a loan pool with The Salem Harbor Community Development Corporation. The bank extended a \$200,000 line of credit to the CDC, requiring other local banks to share equally in the risk of each

loan.

Services

Salem Harbor Community Development Corporation (SHCDC) - The bank's CRA Officer has served as a member of the Board of Directors for this organization over the past two years. This organization's purpose is to create and preserve affordable housing in the City of Salem, particularly the "Point" area.

SHCDC's Helping Entrepreneurs Learn and Prosper (HELP) Program - Heritage Co-operative Bank's CRA Officer represents the bank as a member of this program's Loan Committee. HELP's goal is to assist small businesses, start-ups, and minority owned businesses that face difficulty securing full financing from conventional lenders at reasonable terms and rates. HELP provides a continued array of services for its clients, by supporting and assisting entrepreneurs at all stages of the loan application process, from business plan development, through loan approval and packaging to post-loan technical assistance.

SHCDC's Monthly Board Meetings - Heritage Co-operative Bank has agreed to host the SHCDC's monthly Board meetings. In addition, the bank provides refreshments during the meetings.

The services described above provide meaningful and productive resources to this organization that targets low and moderate-income areas and individuals throughout Salem.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

Heritage Co-operative Bank

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business April 21, 1998, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
_____	_____
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_____	_____
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_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 19 ____